

August 29, 2002

GOVERNORS

SUBJECT: Postal Service's Increased Workers' Compensation Costs
(Product Number HK-OT-02-001)

Attached is a summary of our fact-finding regarding the Postal Service's Increased Workers' Compensation Costs.

If you have any questions or need additional information, please contact me at (703) 248-2300.

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Attachment

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Introduction

At a recent Board of Governors meeting, the following questions were asked:

- Why are Workers' Compensation costs increasing?
- Can the Postal Service establish a separate benefits program?

As background, the Department of Labor, Office of Workers' Compensation Programs, has sole responsibility for administering the Federal Employees' Compensation Act. The Postal Service represents the largest participant in the federal workers' compensation program and accounted for approximately \$805 million or over one-third of the \$2.2 billion in total federal workers' compensation costs for reporting year 2002.

Why are Workers' Compensation Costs Increasing?

Many factors that are beyond the control of the Postal Service have contributed to an increase in workers' compensation costs. Since 1998, annual Postal Service workers' compensation costs increased by 42 percent from \$567 million to \$805 million.

- One factor is the rising age of the Postal Service workforce. The Postal Service workforce is remarkably stable, and compared with the national workforce Postal Service employees are more likely to be over age 44.
- A second factor is higher medical industry costs for medical equipment, medications, and medical treatments. Everything tried in the past decades from wage and price controls to managed care has failed to stem rising costs.
- A third factor is overpayments by the Department of Labor that increases costs in all federal agencies. This includes, duplicate payments to providers; bills paid more than 1 year after the service was rendered; and payments for overpriced medical supplies or equipment not included in fee schedules.
- A fourth factor is increased incidents of fraud by doctors and hospitals. The Office of Inspector General is the lead investigative agency in a federal task force looking

into fraudulent medical claims by fictitious medical providers.

There are other factors the Postal Service can control that contributed to increasing workers' compensation program costs.

- One factor is the Postal Service's difficulty in accommodating injured workers with work restrictions. For example, a freeze on rehabilitation workhours prevented some managers from returning injured employees to restricted work.
- Another factor is the absence of an aggressive program to monitor refunds and credits. We recently completed an audit in the Southwest Area that reported the Postal Service did not track or follow up on refunds from third parties or credit adjustments for overpayments. As a result, the Postal Service did not receive credit adjustments for approximately \$835,000.

Can the Postal Service Establish a Separate Program?

The Postal Service cannot establish its own workers' compensation program without enabling legislation. Employees of the Postal Service are covered by the Federal Employees' Compensation Act under Section 1005(c) of the Postal Reorganization Act. Administrative responsibility for the act is assigned to the Department of Labor, which has delegated that responsibility to the Office of Workers' Compensation Programs.

In May 1995, the Postal Service contracted with Ernst & Young, LLP, to analyze the costs and benefits of changing from federal workers' compensation coverage to state coverage either by self-insurance or private insurance coverage. Ernst & Young, concluded that significant savings could be achieved, but legislation would be required to convert to state coverage.

Ernst & Young also reported that reforms to the existing Federal Employees' Compensation Act could result in greater savings than converting to state coverage. Provisions for changing cost of living adjustments and a mandatory retirement would affect a larger universe of claimants than prospective state coverage.